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March 8, 2000

Vernon A. Williams
Secretary
Surface Transportation Board
Case Control Unit
1925 K Street, N.W.
Washington, D.C.

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Office of the Secretary

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Re: STB Ex Parte No. 582, Public Views on Major Rail Consolidations

Dear Mr. Williams:

Enclosed for filing on behalf of Norfolk Southern Corporation in the above-referenced docket are ten copies of the prepared remarks of David R. Goode. These remarks were delivered by Mr. Goode to the Board during yesterday's hearing in Ex Parte 582, and we wish to make them available to the Board in written format. Also enclosed is a computer disk containing a copy of the prepared remarks in WordPerfect 7/8/9 format.

Thank you for your assistance with this matter.

Very truly yours,

G. Paul Moates
Vincent F. Prada

Enclosures

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REMARKS OF
DAVID R. GOODE

Chairman, President & CEO
Norfolk Southern Corporation

STB Ex Parte No. 582,
Public Views On Major Rail Consolidation



As railroad topics go, it is hard to get one bigger than what we have today -- the future structure of the North American rail system. I commend the Board for considering this difficult issue at this time. We are at a crossroads. As a result of a long line of mergers, we find ourselves today with a balance never before seen in our industry -- two large railroads in the western U.S., two large railroads in the eastern U.S. and two large railroads in Canada. It is fitting that before we irrevocably disturb this equilibrium, all parties with a stake in rail transportation look at where we have been, where we are, and where we want to be.

Our position is that now is not the time to approve a rail merger because it would be bad for shippers and bad for the rail industry generally. Today, our customers and investors are telling us that the rail industry needs predictability not uncertainty, stability not turmoil. A major merger like BNSF-CN could disrupt the entire industry for years. This is so for several reasons:

- The rail industry has not had time to restore and improve the quality of service to customers and regain their confidence.

- We risk further alienating our customers if the industry becomes consumed by the prospect of another round of major rail consolidations.
- Embroiling the industry will distract NS and other carriers from their first order of business, fixing service and achieving the public benefits of recent major rail consolidations.
- If BNSF/CN proceeds, there will be other major rail consolidation proposals which will divert attention from addressing service and operating issues.
- Another major rail consolidation proposal will add impetus to current proposals for re-regulation of the rail industry.

For these reasons, the rail industry isn't positioned to begin another round of major rail consolidation proposals -- and by this I mean Norfolk Southern, the other carriers and our customers. We are all in this thing together, for better or for worse. We are a network industry. So, even if BNSF and CN are right that they are ready to do another major rail consolidation (and that is far from clear), what the Board should be looking at is not the private objectives or interests of the two applicant carriers, but the interests of the entire U.S. rail industry and the shipping public it serves.

In the last few decades, we have seen an evolution from a rail system comprised of dozens of fragmented Class I railroads to our current balanced structure of six large rail systems. Two of those systems -- BNSF and CN -- want to consolidate. What the Board does in response to the BNSF-CN proposal will have a major impact on the future of our industry.

The first and foremost public policy question is whether there should be any large rail mergers at this time. I believe the answer to be "no" -- and it will remain "no" unless and until we determine that the current structure will not produce the service required by our customers.

It would be a serious mistake not to afford our customers the time to see what the current structure can do. I believe NS will be able to work with UP and BNSF, as well as CN and CP, as we do with CSX and other carriers, to provide seamless service of a very high order. But we need to demonstrate that ability and provide the promised service -- something I have been disappointed we have only recently begun to do.

I do know that there are significant potential benefits to having two carriers in the East (rather than three) and two carriers in the West (rather than four). We have worked hard to come up with a balanced structure. It will be easier now to coordinate traffic flows and interchange traffic, and there are all sorts of opportunities for improving service. Offering "single line like" service is not easy, but then again it is not impossi-

ble. The technology is available and the lanes are there. NS and its partners have a number of near seamless service offerings and, now that our train operations are better, I am confident that we can do more.

In short, the current structure is better than the ones which preceded it. But because our current structure has been in effect for such a brief time, and because rail service in both the West and the East has been anything but normal, we and our customers need a period of time to determine just how effective this structure can be.

I also believe that the BNSF-CN proposal, particularly in its downstream effects, is not in the public interest. I suggest that if hearings proceed and you undertake formal consideration of the BNSF-CN proposal, you consider this question: are the benefits of the proposed BNSF-CN merger so compelling that they are worth risking service problems, risking financial problems and risking undermining the clear public benefits of the current balanced North American rail system, including those benefits that CSX and NS promised but have not yet delivered from our Conrail transaction?

The first downstream effect is further merger proposals. If the Board approves BNSF-CN, or if it even looks as if the Board might approve it, I will have no choice but to explore alternatives available to Norfolk Southern and I have no doubt others will do the same.

Why am I so certain? Simply because BNSF-CN would once again change the strategic balance in the industry. I will not sit idly by and let BNSF-CN drain revenues from my system. Neither would others. Right now there is the kind of competitive balance in the industry that NS championed in its principles of balanced competition. BNSF-CN would upset that balance. I cannot ignore that and I suggest that others will not either.

The effects of these merger proposals would not be good for our customers or for the industry as a whole. A major merger proposal such as BNSF-CN can disrupt the entire industry for years. This is just the opposite of what we need.

If the BNSF-CN proposal goes forward, all of the large railroads will have to divert a significant amount of management effort away from daily operating, service and marketing issues. For my railroad it means the benefits of the recent Conrail transaction will be much harder to achieve and will be delayed, reduced, or in some cases lost. Any major rail consolidation will necessarily cause a shift of management time and attention to merger issues. Already, I have a number of our people actively working on the BNSF-CN proposal, which means they are not working on other, more immediate, matters -- for example, capacity and strategic service issues.

Major rail consolidation proposals will also hinder industry-wide improvement efforts such as we have under way with respect to interline service, e-commerce and

Chicago area operations. Successes in these cooperative efforts are essential to improve our competitiveness with trucks and to make our customer service better, as well as to improve the profitability of the industry.

And, there is the probability that this proposed BNSF-CN consolidation will increase pressures on Congress to change the current regulatory scheme. I understand the concern that customers have but I also know that a stable regulatory environment is absolutely essential for capital formation in today's markets. The very prospect of instability resulting from the BNSF-CN transaction has produced adverse reactions by investors in all rail stocks. Investors are telling us (including BNSF and CN) that they do not want more merger activity at this time.

Further consolidation at this time also would also complicate the service issues we face in the East. We are improving, and indeed Norfolk Southern has recently made significant improvements in operations. We could not have done this without the active cooperation of our employees and their representatives, our connecting railroads (large and small) and, indeed, our customers.

But we still have more improvements to make. Even if we are close to "normal" operations, we need to make major network changes over the next several years to introduce a strong north-south component into what today is essentially an east-west

network. Having to adjust our operations to those of a newly merged carrier would distract us from our reorientation efforts.

Would another large merger -- if there is one -- result in major service problems? History suggests yes. The last three major consolidations -- BN/SF, UP/SP and NS/CSX/CR -- all had their share of service problems. I'm certainly well-qualified to tell you that no matter how confident the proponents may be that service will be perfect after a merger, the potential for problems is great. And now is a particularly bad time to ask shippers to face such a prospect.

In addition to shipper concerns, investors and customers are nervous. The railroad industry and especially the eastern railroads are as financially fragile as they have ever been in my career. Now, both major eastern carriers are struggling with financial issues, compounded by fuel increases and the weakest export coal market in a generation. Even the western U.S. rail carriers have seen their stock prices fall to historic lows.

To the extent that Class I's encounter service or financial difficulties, our short-line partners also suffer. As you know, Norfolk Southern has worked hard to improve relationships between the larger and smaller railroads. We think there is great potential for new relationships within the industry, but short-lines will be hurt if we have service or financial problems.

So, to sum up where I began: this is a bad merger at the wrong time. Does this mean that I believe BNSF-CN should be judged differently than prior mergers? Not really. All mergers should be judged in light of the circumstances in which they are proposed. Insisting on a prominent role for downstream effects of BNSF-CN is no different than focusing on the reestablishment of rail-to-rail competition in the Conrail transaction. Perhaps strict legal precedent did not require looking at the Conrail transaction in such a light, but public policy and common sense did. Much the same is true of BNSF-CN. Different circumstances require different approaches.

At this point in time we have a structure which, given the chance, I believe will produce the services demanded by our customers. At this point in time, a suggested combination with an absence of adverse competitive effects is not necessarily one that is in the public interest. At this point in time, the risks -- of service disruptions, of financial problems, of undermining expected but not yet achieved public benefits -- are too high to proceed with a large rail merger that will produce more. At this point in time, there should be no major rail mergers and that is how it should remain unless and until it is determined that the current structure cannot produce the service required by our customers.

We are indeed at a watershed -- what the Board does now will determine the shape of our entire industry. And what BNSF and CN do now will also affect our industry enormously. Their customers are our customers too -- Rob and Paul, please

listen to those customers; listen to your investors; and I ask you to show true leadership and concern for our industry by reconsidering your consolidation proposal.